1	BEFORE THE
2	POSTAL REGULATORY COMMISSION
3	WASHINGTON, DC 20268-0001
4	
	REGULATIONS ESTABLISHING : Docket No. RM2007-1
5	SYSTEM OF RATEMAKING :
6	
7	Postal Regulatory Commission Field
8	Hearing taken pursuant to notice before Gloria M.
9	D'Amore, Registered Professional Reporter, in the Third
10	Floor Conference Room of the Carvel State Office
L1	Building, 820 N. French Street, Wilmington, Delaware, or
12	Monday, July 9, 2007, beginning at approximately 2:00
13	p.m., there being present:
L4	APPEARANCES:
15	POSTAL REGULATORY COMMISSION
	DAN G. BLAIR, CHAIRMAN
16	DAWN A. TISDALE, VICE CHAIRMAN
	RUTH Y. GOLDWAY, COMMISSIONER
17	TONY HAMMOND, COMMISSIONER
18	
L9	
20	
	CORBETT & WILCOX
21	Registered Professional Reporters
	230 N. Market Street Wilmington, DE 19801
22	(302) 571-0510
	Corbett & Wilcox is not affiliated
23	with Wilcox & Fetzer, Court Reporters
2.4	

1	CHAIRMAN BLAIR. GOOD alternoon,
2	everyone. I'm Dan Blair. I'm the Chairman of the Postal
3	Regulatory Commission. We welcome everyone today.
4	This is the final hearing we scheduled
5	for the road in preparation of the new regulations, which
6	we hope to get out this fall. We've had hearings thus
7	far in Kansas City, Missouri, in Los Angeles, California,
8	and, I think, so far we've had some really good hearings.
, , 9	We've had the big picture. We've had issues regarding
10	operations. And we look forward to our witness panel
11	today for your valuable testimony, as well.
12	Before I begin, I would like to introduce my
13	fellow Commissioners. Vice Chairman Dawn Tisdale.
14	Commissioner Tony Hammond. And Commissioner Ruth
15	Goldway. Commissioner Mark Acton is not here with us
16	this afternoon because of scheduling conflicts.
17	And also for the record, this hearing
18	has been formally noticed and is open to attendance by
19	the public. We hope that citizens, who are attending
20	today, will find that this hearing provides an
21	interesting and informative window on postal policy
22	making. The format precludes accepting unsolicited testimony
23	comments or questions. However, anyone who wishes to submit
24	comments or suggestions may do so in the preferred
25	method, which is by way of the Commission's on-line filing

- 1 system, and I'll provide that web address for you at the
- 2 close of my remarks.
- 3 The Postal Accountability and
- 4 Enhancement Act fundamentally alters the postal
- 5 rate-making process. The Act gave us 18 months from the
- date of enactment to issue regulations for a new system,
- 7 to replace the lengthy and, often times, contentious and
- 8 overly litigious one that had been used since 1970. The
- 9 Commission's goal, and we're on target to meet that goal,
- is to have a new regulatory framework in place by this fall,
- all the while completing all currently pending business
- 12 under the old rate regime.
- The reason for this afternoon's hearing
- is part of our outreach effort. We're soliciting input
- on how the new rate-making system should look, and we'll
- be hearing from you, critical stakeholders in this
- 17 process. Going outside of Washington is important
- for us, as we learn what postal stakeholders and mailers
- 19 expect from a new rate-making system. We're working with
- other federal agencies, including Congress. And we've
- 21 sought public comments through two Advance Notices of
- 22 Rulemaking and co-hosted a rate-making forum with the
- 23 Postal Service that attracted over 200 attendees last
- 24 spring.
- 25 Under the old system, our job was to

- 1 recommend cost-of-service rates and promote efficient
- 2 mailing practices and to ensure that each class of mail
- 3 covered its costs and contributed to the Postal Service's
- 4 overhead costs.
- 5 All of this has changed under the Postal
- 6 Accountability and Enhancement Act. Congress wants the
- 7 Postal Service to operate on a more business like manner.
- 8 And the Postal Service now has flexibility to raise rates
- 9 under a price cap system, as well as earn and retain
- 10 profits. However, with this added flexibility
- 11 comes a needed balance, and that balance will be provided
- by the Postal Regulatory Commission. And we're
- approaching this from the need for greater transparency
- 14 and accountability. In addition to creating a framework for
- 15 a new rate-making process, the Commission is charged with
- issuing annual rate compliance reports, financial
- 17 accounting reports and acting on complaints among its
- 18 many new responsibilities.
- This is why we believe the Field
- 20 Hearings add value to this process. We are pleased to
- 21 have with us today five distinguished witnesses
- 22 representing diversity within the mailing community.
- 23 Actually, six witnesses, since you present as one entity.
- 24 We appreciate your willingness to share with us your
- 25 expectations for a new rate-making system and your

- views on delivery service standards, which, I believe,
- is very important, which we are working with the
- 3 Postal Service in establishing.
- At this time, I will like to introduce our
- 5 panelists. I'll start from my left to my right or
- 6 your right to your left.
- 7 We will start with John Campo, who will
- 8 be representing Pitney Bowes. He is the Vice President
- 9 for Postal Relations.
- 10 We also have with us today Sister
- 11 Georgette Lehmuth. If I butcher anyones' names, please
- forgive me. She is the President and CEO of the National
- 13 Catholic Development Conference.
- We have also with us Daniel C. Emens.
- 15 He is the Vice-president and Senior Materials and
- Print Manager for J.P. Morgan Chase. And notice, we are
- in Wilmington the home of several major banks. It will
- 18 be interesting in hearing from one of the key stakeholders
- in the community.
- We also have Paul Misener with us.
- 21 Vice President of Worldwide Public Policy for Amazon.com
- 22 Incorporated. He was a host for us earlier today when we
- 23 toured one of your key plants, fulfillment plants, and
- 24 saw those operations in progress.
- 25 Also we have with us Adam and Wendy, if

- 1 I pronounce it wrong, please forgive me, Leidhecker. And
- you are CEO's of a company called Your Auction Company, a
- 3 small business that's working within the eBay community.
- So, welcome. We appreciate your
- 5 testimony. We look forward to hearing from each of
- 6 you on how the Commission can best fulfill its
- 7 responsibilities and achieve the objectives of the Act. We
- 8 ask that you limit your testimony to five minutes. But,
- 9 please, be assured that your full testimony will be included
- for the record. Today's testimony, along with all
- 11 written comments related to the new rate-making system
- may be viewed on the PRC's website, www.prc.gov.
- 13 At this time, I would like to yield to
- 14 Vice Chairman, Dawn Tisdale, for his opening remarks.
- 15 VICE CHAIRMAN TISDALE: I would just
- like to take a minute or two to welcome you to this
- 17 hearing and re-emphasize to all of you how important it
- 18 is that you adhere and you are willing to share with us
- 19 your testimony as we go forward to form a new modern
- 20 rate-making system. It is vital to us that we hear what
- 21 your concerns might be and the matters that you think
- 22 should be considered.
- 23 I want to thank you for being here, and
- 24 we look forward to hearing from you.
- 25 CHAIRMAN BLAIR: Commissioner Hammond.

1 ·	COMMISSIONER HAMMOND: I would like to
2	thank the Chairman for scheduling these hearings as we
3	work through the new issues that are before us.
4	Our Kansas City and Los Angeles hearings
5	were very beneficial. And I'm glad to see that we got
6	such a varying group of stakeholders today. And thank
7	you all for coming. And I look forward to today's discussion.
8	CHAIRMAN BLAIR: Commissioner Goldway.
9	COMMISSIONER GOLDWAY: Again, I think
10	all of us are unanimous in our enthusiasm for the success
11	of these hearings and look forward to your presentation.
12	I simply want to emphasize that the
13	thrust of the new law into which we operate was to make
14	the Postal Service more transparent and accountable. And
15	we believe that's also true for the Postal Regulatory
16	Commission. We want to be more transparent and
17	accountable. And this Field Hearing is a prime example
18	of our effort to do that. But we hope to hear from you
19	again and during the course of our implementation of
2,0	these new regulations and over the coming years. Because
21	the way to have a viable, successful regulatory agency is
22	to be the window for the public who are interested in
23	these issues and to make sure they are always considered
24	in the processes overview of the Postal Service.
25	So, thanks again for being here.

1	CHAIRMAN BLAIR: Thank you, Commissioner
2	Goldway.
3	At this point, I would like to hand it
4	over to our panelists. We will start with Mr. Campo.
5	Welcome. I appreciate you taking the time. I understand
6	you had a good train ride up here from Washington. So,
7	we look forward to your testimony.
8	MR. CAMPO: Thank you.
9	Chairman Blair, Vice Chairman Tisdale,
10	Commissioner Goldway, Commissioner Hammond, good
11	afternoon.
12	My name is John Campo. I am the
13	Vice-president of Postal Relations for Pitney Bowes.
14	Before I begin, I want to take this
15	opportunity to express my gratitude to the Commission for
16	establishing such an inclusive process in your efforts to
17	develop and implement a modern system of rate-making.
18	Pitney Bowes is pleased to participate in today's hearing
19	Founded in 1920, today Pitney Bowes is
20	much more than a postage meter company. We are a leader
21	in the domestic and international mail presort business,
22	address quality solutions business, government mail
23	services and expanded access to retail postal services.
24	We hold over 3,500 patents worldwide.
25	You will find Pitney Bowes mailing equipment in millions

- $\,\,$  of offices small and large across the country and around
- 2 the world.
- We also manage 1,300 corporate and
- 4 government mailrooms, and share our expertise every day
- 5 with many thousands of additional businesses, including
- 6 800,000 small business customers and very large mailers,
- 7 like our good customer, J.P. Morgan Chase.
- Pitney Bowes believes that mail is a
- 9 vital communication medium for individuals and for
- 10 organizations of all sizes around the word.
- The Postal Reform bill holds the promise
- on enabling the Postal Service to increase the overall
- 13 efficiency of the mailstream.
- 14 Congress recognized that this is the way
- 15 to grow the mail to promote a vibrant mailing industry
- and to insure universal, affordable mail service.
- 17 To capture the benefits and maximize the
- opportunities presented by the new law, the Commission
- must do four things.
- 20 First, the Commission must provide
- 21 specific advanced guidance about the scope and nature of
- the modern rate-making system.
- 23 From a business prospective, specific
- 24 advanced guidance is absolutely necessary. We need to
- 25 know the rules the Commission will apply. Clear rules

1	create an environment that encourages future investment
2	in the mailstream.
3	Second, the Commission's regulations
4	should encourage the Postal Service to adopt pricing
5	incentives or work sharing discounts to fully reward
6	mailer activity that reduces total postal system costs.
7	These include private sector cooperation
8	with the Postal Service and customized pricing
9	agreements.
10	These opportunities can and should
11	extend beyond the very largest mailer to individuals and
12	to small businesses. Pitney Bowes is proud to have
13	implemented a postal discount program, or PDP, to allow
14	smaller volume mailers to take advantage of the same work
15	shared discount rates that benefit the very largest
16	mailers.
17	Under the PDP program, Pitney Bowes
18	picks up and sorts qualifying small business volumes.
19	Pitney Bowes currently has over 1,200 customers in this
20	program. Many of these enter fewer than 500 pieces per
21	day.

Third, the Commission's regulations 22 should promote technological innovation to improve the 23 efficiency and enhance the value of mail. 24 25

The new law encourages rate incentives

1	for expanded	retail	access	to	make	mailing	more

- 2 convenient and affordable. Postage meters, on-line
- 3 postage and self-service kiosks can increase efficiency
- 4 and reduce total postal systems costs by driving the
- 5 expensive transactions away from the retail counter.
- 6 The Commission's regulations should also
- 7 encourage technological innovation that adds both
- 8 transparency and security to the mailstream. Data-rich
- 9 mail is more valuable to senders and recipients.
- 10 Let me cite just two examples of
- 11 technological advances the Commission should encourage.
- 12 The first promises to help reduce total
- postal system costs. Pitney Bowes/PSI Group is
- 14 participating in the initial pilot for this seamless
- 15 acceptance program.
- 16 The second is helping to grow the mail.
- 17 Pitney Bowes worked with eBay and the Postal Service to
- develop an instant, on-line postage system that
- 19 calculates exact postage for eCommerce transactions.
- My fourth and final point is that the
- 21 Commission must work with the Postal Service to establish
- 22 service standards and performance measurements.
- 23 Service standards should be realistic
- 24 and attainable. Current standard should serve as the
- 25 baseline. The focus should be consistency and

- 1 reliability. Reliability is essential for maintaining
- 2 and enhancing the value of mail as a vital communications
- 3 medium.
- 4 There also is a critical need for
- 5 verifiable and accurate performance measurement. The
- 6 Commission's regulations should provide for an open
- 7 architecture. This will allow interested parties to
- 8 access and verify the data that is used to measure
- 9 compliance with service standards. The widespread
- 10 adoption of the intelligent barcode and seamless
- 11 acceptance will help facilitate price, real-time
- 12 performance measurements.
- In closing, I want to thank the
- 14 Commission, again, for this opportunity to testify today.
- And I'm happy to answer any questions
- 16 you may have. Thank you.
- 17 CHAIRMAN BLAIR: Thank you, Mr. Campo.
- 18 We appreciate your testimony.
- 19 Sr. Georgette. Thank you so much for
- 20 coming, and we look forward to hearing from you today, as
- 21 well.
- SR. GEORGETTE LEHMUTH: Thank you. I am
- 23 grateful to be here.
- 24 My name is Georgette Lehmuth. I am the
- 25 President and CEO of The National Catholic Development

- 1 Conference known as NCDC.
- 2 Founded in 1968, NCDC, an association of
- 3 almost 400 charitable organizations, is the largest
- 4 association of religious philanthropies in the United
- 5 States. The mission of NCDC is to lead the
- 6 Catholic development community toward excellence in the
- 7 ministry of ethical and competent fund-raising, through a
- 8 variety of educational programs, services, resources,
- 9 networking and advocacy. We promote mission-focused and
- donor-centered fund-raising in the context of love of God
- 11 and love of neighbor.
- The hallmark of NCDC is the promotion of
- 13 the integrity of its member organizations to donors, the
- media and the general public. To this end, all members are
- 15 required to fully disclose financial information to donors,
- in accord with the ethical guidelines outlined in NCDC Precepts of
- 17 Stewardship and the U.S. Bishops' Guidelines for
- 18 Fund-Raising in the United States.
- 19 Our member organizations consist of
- 20 dioceses and parishes, schools, health care facilities,
- 21 social service agencies, orders of women and men
- 22 religious, missionaries, shrines, and other charities.
- 23 As a whole, our membership serves the needs of hundreds of
- thousands of women, men and children, both in the
- United States and beyond our borders.

1	My primary responsibility as President
2	and CEO of NCDC is to promote and advance the mission of
3	our organization and serve as the spokesperson for NCDC
4	to its various publics. I am accountable to the NCDC
5	Board of Directors for all services, programs, management
6	and finances of the association and report to my Board on a
7	quarterly basis. This includes supervision of a staff of
8	seven and our national office in Hempstead, New York. I
9	became the President and CEO of NCDC in 2001.
10	For decades, NCDC's member organizations
11	have relied primarily on the United States Postal Service
12	to promote their missions and solicit funds for their
13	causes. It is often through the mail that a donor first
14	meets a charity. It is through First-Class Mail that the
15	donor replies by sending a gift to help those in need.
16	Our members use Standard Mail in large
17	volumes to acquire new supporters and friends and
18	First-Class Mail to thank and to stay in contact with
19	existing benefactors.
20	At a minimum estimate, our members send
21	out approximately 300 million pieces of Standard Mail
22	each year, along with several million pieces of single
23	piece and presort First-Class Mail. A rough estimate of
24	our members' total annual postage expense is \$50,000,000.
25	This information will change dramatically

- 1 this year because of the change in rates in
- 2 classifications for flats. The goal of all our members
- 3 is to meet the Standard Mail rates on as much of their
- 4 mail as possible.
- 5 Because NCDC represents a large
- 6 constituency of charitable mailers, it is from that
- 7 context that we address our postal concerns. The three
- 8 issues that concern us most about the future of the
- 9 Postal Service are, the extent to which the Postal Service
- 10 will be able to control its costs. The predictability of
- 11 future postal rate increases. And the reliability of the
- 12 USPS service performance. I'll discuss each other
- 13 briefly in turn.
- 14 The organizations NCDC represents are
- 15 charities that serve the unmet needs of the poor.
- In recent years, both federal and state
- 17 budgets have been cut reducing the amount of assistance
- 18 available to meet these needs.
- 19 Thus, charities are required to raise
- 20 more money to make up the deficit in other funding.
- In addition, charities are under
- 22 constant scrutiny in terms of how much of every donor
- 23 dollar is actually used in direct service to those in
- 24 need. Therefore, our members are compelled to raise
- 25 money as cost-effectively as possible.

1	The Postal Service's ability to control
2	its costs is of great concern to our members because
3	postage is a large part of their budgets. Although
4	religious charities do adjust their budgets to anticipate
5	some postal cost increases, multiple or large increases
6	are hard to absorb.
7	Our members' budgets are very tight. A
8	postal increase of just a few cents per piece can
9	translate to hundreds of thousands of dollars earmarked
10	for charitable projects but used instead to pay
11	fund-raising costs.
12	The fund-raiser, then, must decide to
13	either reduce the number of pieces mailed to stay within
14	budget or to mail the same volume and take a loss.
15	Smaller volume will net smaller responses. No matter how
16	one decides, the end result is less money available for
17	the mission. The cost of raising a dollar goes up. The
18	donor loses confidence in the charity. And in the end,
19	those who suffer are those most in need.
20	For these reasons, we ask the Commission
21	to make sure that the Consumer Price Index Cap on rate
22	increases is binding and effective. And we also request
23	that the Commission enforce pricing rules that enable our
24	members to buy services like presorting and transportation

from private vendors or perform these functions themselves

- when these alternatives cost less than the Postal Service's
- 2 costs of providing these functions.
- 3 Our members are very strategic about how
- 4 they use the USPS, and budgets for both fund-raising and
- 5 program activities are planned well in advance.
- 6 Therefore, predictability is essential. For charities,
- 7 programs and resources are totally dependent on how much
- 8 money the fund-raiser has estimated will be available in
- 9 a given year. The money that is raised through direct
- 10 mail is not gravy. It is the money that is already
- 11 earmarked for use. When fund-raising costs go up
- 12 unexpectedly, the resulting loss in revenue means
- programs, staff and resources are cut. The results
- include fewer counselors to attend to victims of rape
- and incest; fewer food pantries in operation; fewer
- 16 hours at neighborhood clinics, fewer parenting programs
- and fewer nurseries for poor working mothers. An
- 18 unpredicted postage increase of only five percent can
- 19 translate into these cuts and more.
- 20 The recent increase in rates of
- 21 flat-shaped Standard Mail illustrate this phenomenon.
- We understand that postal rates should reflect the costs
- 23 of the choices that we as mailers make. But large and
- 24 unexpected rate increases can cause major hardship.
- The recent rate increases on flats have impacted many

- of our members, especially, those who use premiums,
- for example, rosaries, religious medallions, or prayer
- 3 memorial cards for fund-raising. These charities are
- 4 working hard with their vendors to find new solutions
- 5 to meet standard rate requirements. However, the loss
- 6 has been great.
- 7 The Commission's attempt to give our
- 8 members a two percent reduction in flat rate cost, if
- 9 even temporary at least was an acknowledgment of problems
- 10 and financial difficulties that we were facing. There
- is still much confusion and uncertainty with the USPS
- regarding implementation. In the end, most of our
- membership have decided to move away from flats as
- 14 much as possible.
- To avoid these problems in the future,
- we urge the Commission to adopt standards that make
- future rates increases as predictable as possible.
- 18 Service performance is also a concern
- for our members. Many of our mailings are time-sensitive
- 20 because they are tied to local events or seasonal
- 21 holidays. Major and growing problems with the
- 22 predictability of mail delivery, however, have caused
- 23 many of our members to become concerned that entire mail
- 24 campaigns are in jeopardy. For example, time sensitive
- 25 mailings, such as for Christmas and Easter, that

- traditionally were highly successful and budgeted for
- 2 high returns, have seen their yields fall dramatically.
- 3 Lower fund-raising yields add to the cost of raising a
- 4 dollar. We believe that this phenomenon is due
- 5 in large part to the increasingly erratic
- 6 time-to-delivery of both First-Class and Standard Mail.
- 7 We urge the Commission to make the USPS
- 8 service performance much more transparent. To this end,
- 9 we believe that the Commission should establish service
- 10 measurement systems that provide accurate, independent
- and frequent, perhaps, monthly reports, on how long mail
- service takes for each major class of mail. Because
- service can vary widely from one region and district to
- another, we believe that the service reports should
- provide information broken down by the three-digit
- 16 zip code prefix.
- We also believe that the Postal
- 18 Service's performance should be tied to the rate
- 19 adjustment index, so to prevent the Postal Service from
- 20 managing cost by letting service quality deteriorate.
- 21 When our members buy food and other supplies from
- third parties vendors, we do not expect our
- 23 vendors to come in underbudget by providing supplies that
- 24 are stale, spoiled, short-weighted, or defective in other
- 25 ways. Allowing that would betray our duties to our

- donors and the poor people they have asked us to serve.
- We ask no less of the Postal Service.
- In speaking to my constituents, I know
- 4 that our desire is to continue to use the United States
- 5 Postal Service as the primary resource in promoting our
- 6 missions and the causes that we serve. We see the USPS
- as a partner. We work hard to meet all of the regulations
- 8 regarding the appropriate preparation Of Standard Mail in
- 9 order to maximize our postage savings.
- 10 What we need is predictable and
- 11 reasonable postal increases, as well as more consistency
- in standards. This will help us to work better with the
- USPS and most importantly, to best serve the needs of
- 14 those less fortunate.
- Thank you for your time and your
- 16 interest. I would be happy to answer any questions the
- 17 Commission may have.
- 18 CHAIRMAN BLAIR: Thank you very much.
- Mr. Emens.
- 20 MR. EMENS: Good afternoon, Chairman
- 21 Blair and members of the Commission.
- My name is Dan Emens. I am the senior
- 23 manager with Chase Card Services at J. P. Morgan Chase.
- 24 On behalf of Chase, I would like to thank the Commission
- for allowing me to provide testimony and commend the

- 1 Commission for its inclusive approach to developing
- 2 a modern system of rate regulation under the
- 3 Postal Accountability and Enhancement Act.
- 4 My personal background spans over 20
- 5 years in the DM industry. It's included lettershop
- 6 print, customer services, sales, procurement and
- 7 operational management. I joined the Bank in 2003 in the
- 8 Marketing Operations Group, and I manage several areas
- 9 supporting campaign execution across the card and retail
- 10 lines of businesses for both acquisition and
- 11 customer-based communications. I also have
- 12 responsibility for the administration of our NSA and
- 13 representation for the Bank on postal matters.
- 14 Prior to joining the Bank, I was
- 15 Procurement Director at AT&T located in the corporate
- 16 headquarters in Bedminster, New Jersey. And under that
- 17 role, I was responsible for procurement of media, direct
- 18 mail, print market research and partnership/co-marketing
- 19 arrangements across the AT&T businesses.
- J. P. Morgan Chase and Company is a
- 21 leading, global financial service firm, and is a publicly
- 22 traded common stock on the Dow Jones Industrial Average,
- 23 with assets of \$1.4 trillion and operations in more than
- 24 50 countries. Chase is a leader in investment banking,
- financial services for consumers, small business and

- 1 commercial banking, financial transaction processing, and
- 2 asset management, and private equity. Our corporate
- 3 headquarters are located in New York. Our U.S. retail
- 4 financial services and commercial banking headquarters
- 5 are in Chicago and card services is headquartered here
- 6 in Wilmington. Under J. P. Morgan and Chase brands, we
- 7 serve millions of consumers in the U.S. and many of the
- 8 world's most prominent corporate, institutional and
- 9 government clients.
- 10 Chase is a very large consumer of postal
- 11 product. Predominately letter sized First-Class and
- 12 Standard Class Mails. We use the mails to solicit new
- 13 customers and deliver customer correspondence, billing
- 14 statements and remittance. In 2006, the bank mailed
- approximately three billion pieces of marketing mail.
- 16 Of that, the breakdown was about two million of Standard
- 17 Class and one billion of First-Class. Nearly, all this
- mail was letter-shaped, presorted and automation
- 19 compatible.
- 20 We have continually partnered with the
- 21 Postal Service to optimize our creative package designs,
- 22 mail preparation and entry to maximize the quality, cost
- and speed of the postal communications channel.
- 24 Chase has had and continues to have
- 25 strong commitment to the continued viability and

- 1 financial health of the U.S. Postal Service.
- 2 However, mail is only one of the many
- 3 channels of communication used by Chase. These alternate
- 4 medial channels, such as electronic, mass media, and print
- 5 have become at least as effective from a marketing
- 6 perspective as mail and continue to expand in effect
- 7 and share of our marketing budget.
- 8 Mail continues to be under pressure not
- 9 only from these alternate communication channels, but
- from the additive effects of concerns about environmental
- 11 stewardship, and the Do Not Mail legislative activity at
- 12 the state level, which continues to channel the mail as
- 13 the medium of choice. The level of our commitment to the mail
- 14 will depend in large part on the Postal Service's ability
- 15 to control and manage its cost and provide consistent
- service performance, and the predictability of future
- 17 rate changes.
- 18 Chase belongs to several trade
- 19 association that have participated actively in this
- 20 rulemaking case. Consequently, I would attempt to limit
- 21 my testimony here to the issues that concern us the most.
- In regard to the implementation of the
- 23 index-based rate adjustment mechanism, Chase urges the
- Commission to calculate the CPI index adjustment based
- on a 12-month average of CPI levels. Not a snapshot of

- 1 year-over-year changes in the CPI between a single pair
- of beginning and end dates, as has been suggested.
- 3 This approach is likely to result in much less volatility
- 4 and would dampen the short-term oscillations of the CPI
- 5 index when compared on a point-to-point basis. Chase and a
- 6 majority of other business mailers operate on an annual
- 7 budget cycle to generate most of the postal mail volume.
- 8 Reducing the short-term unpredictability of cost
- 9 increases is extremely important to us and to all mailers.
- 10 For similar reasons, Chase urges the
- 11 Commission to adopt a schedule of rate adjustments on a
- 12 once a year cycle, preferably at the same time of the
- 13 year and ideally in mid-calendar year. Following a
- 14 schedule such as this will provide adequate time for
- 15 budget planning. In addition, we urge the Commission and
- 16 the Postal Service to provide notification with a longer
- 17 lead time than the 45 days specified minimum in the Act.
- 18 Advanced notice of changes in
- 19 classification and mail prep requirements is just as
- 20 important as advance notice of rate changes and 45 days
- 21 is insufficient. Rate changes that involve changes in
- 22 classification, mail prep, requirements or interclass
- 23 rate design require modification to software testing and
- 24 evaluation of impact and often time modification in our
- 25 plan.

.1	We asknowledge that the Doctal Convice
1	We acknowledge that the Postal Service
2	has indicated it will work with the mailing community and
3	provide for dialogue and mail notification well before
4	the 45 days. It's imperative that the Commission
5	partner with the Postal Service to make this commitment
. 6	work effectively.
7	We commend and support the Commission's
8	effort in seeking to provide a smooth transition between
9	the old and new regulatory standards as quickly as
10	possible. We would oppose the filing of another
11	rate case under the old law. Of course, that would be
12	disruptive to both mailers, and the Commission and the
13	Postal Service.
14	Furthermore, when the Postal Service
15	files its first rate increases under the new rules, the
16	Commission should ensure that both the timing and level
17	of the increases do not result in a double dip recovery
18	of costs already reflected in the test year revenue
19	requirement of the last rate case.
20	In regard to other regulatory issues, we
21	urge the Commission to adopt rules that effectively
22	promote competition for upstream functions.
23	Competition among our suppliers is the
24	most effective tool available to Chase for controlling

its cost and the postal costs are no exception.

- 1 Although the Postal Service maintains a monopoly over
- 2 the delivery of First and Standard Class mailed letters,
- 3 for example, there is potential competition for the sorting,
- 4 transportation and other functions that occur before
- 5 delivery.
- 6 Achieving this outcome requires that the
- 7 postal rate satisfy the Efficient Component Pricing Rule.
- 8 In plain English, the extra amounts charged by the Postal
- 9 Service for sorting, transportation, similar functions must
- 10 reflect all of the extra costs that the Postal Service
- 11 incurs for this work.
- 12 Stated differently, it must be reflected
- in the work share discount applied when performed by the
- 14 mailer.
- 15 In fact, the Commission recently called
- 16 the Efficient Component Pricing Rule a bedrock principle
- of ratemaking. We agree. We urge the Commission to
- 18 enforce rules for the pricing that support competition in
- 19 these services so that they not only survive but flourish.
- 20 Five years after the Commission first
- 21 allowed the Postal Service to offer negotiated service
- 22 agreements to individual customers, only five domestic
- 23 mailers are parties to an NSA. Chase is one of those
- 24 five.
- Why has this rollout of NSAs been so

1 limited?

2	From our firsthand experience under the
3	current regulatory process, gaining regulatory approval
4	of an NSA is slow, costly and unpredictable. The signing
5	of our contract was only the beginning of the process.
6	Players with no meaningful economic stake in the NSA can
7 .	intervene in the case and force the proponents to endure
8	months, or in our case, almost two years of time-consuming
9	and costly litigation. The delays, costs and uncertainties
10	greatly reduce the attractiveness of NSAs for potential
11	customers. Even when all of the intervening
12	mailers, competitors, labor unions, and other interested
13	groups agree to the NSA terms negotiated by the parties,
14	the Commission may modify the terms on its own.
15	The rules adopted by the Commission to
16	reduce the financial risk of NSAs to the Postal Service
17	have also increased the risk that the potential financial
18	benefits will never be fully realized. Our NSA is a
19	good example of that situation. While we continue to
20 ,	abide by all of the mail preparation and other terms of
21	the NSA, we reached the discount cap midway through the second
22	year of our three-year NSA. When the rate incentives to use
23	First-Class Mail were exhausted, First-Class Mail
24	immediately became uneconomic for solicitations to many
25	of our target market, and many of our solicitation mail

- volume have migrated back to Standard Class mail
- depriving the Postal Service of several million dollars
- 3 of additional contributions to institutional costs that
- 4 the service would have received if the NSA discounts had
- 5 been uncapped.
- 6 Thanks to the new legislation, the law
- 7 for the first time explicitly recognizes the
- 8 appropriateness of NSAs. And our postal counsel has indicated
- 9 that the adoption of index-based ratemaking insulates
- 10 other mailers from the profitability of NSAs.
- 11 We urge the Commission to use the new
- 12 law as an occasion to reconsider the wisdom of the
- 13 current restrictive approach to NSAs. And to give the
- 14 Postal Service more flexibility to strike deals with its
- 15 customers, just as Chase and most other American
- 16 businesses do.
- 17 And finally on the issue of performance
- 18 standards. Chase has and continues to participate in the
- 19 ongoing deliberations within the MTAC 114 subgroups,
- 20 focused on both First and Standard Class Mail, as well as
- 21 the other classes of service. The discussions have been
- 22 open, frank and constructive with the Postal Service and
- 23 members of the Commission staff participating in the dialogue.
- We appreciate the opportunity to have offered our voice
- in those proceedings.

_	onabe arges the committee to adopt a
2	performance measurement system that is timely, accurate,
3	resistant to manipulation and sufficiently granular to
4	provide performance data by three-digit zip code pairs.
5	Further, we urge that collected data aggregated to the
6	three-digit level be made available to mailers on-line
7	at no cost, preferably in as close to real-time as
8	possible. The closer to real-time, the better predicted
9	value of maximum performance, which would afford both
10	mailers and the Postal Service opportunity to adjust and
11	plan in accordance with an evolving network resulting
12	in greater efficiency and potential nest eggs.
13	Some parties have urged the Commission
14	to impose financial penalties on the Postal Service for
15	non-compliance with specified service standards. We do no
16	believe that this should be a high priority. Until the
17	Postal Service accumulates a significant nest egg of
18	retained earnings, financial penalties would effectively
19	be borne by mailers through poorer service performance
20	as the Postal Services resources are diverted to penalty
21	payments. Or in an extreme case, by giving the Postal
22	Service a pretext to invoke the exigency clause.
23	We believe first priority should be
24	given to establishing a measurement system whose reports
25	are clear, public, up to date, reliable and frequent.

- 1 In the event of service performance deterioration, the
- 2 glare of adverse publicity is likely to be a very
- 3 effective sanction. At the same time, we encourage the
- 4 Commission to allow the Postal Service to the maximum
- 5 extent permitted by law to retain the earnings generated
- 6 by good performances through bonuses and incentive
- 7 payments to postal management and labor.
- 8 Finally, of significant importance on
- 9 this subject, performance measurement must be tied to CPI
- 10 index rate adjustment to ensure that the Postal Service
- 11 cannot evade the CPI price cap by letting the quality of
- 12 service deteriorate or for it to transfer more of its
- work to mailers without compensation. Charging the
- 14 same price for mail service that is poorer in quality,
- or requires additional mail preparation by mailers
- 16 without appropriate rate discounts is effectively a
- 17 rate increase.
- 18 In closing, Chase believes that we all
- share an opportunity to develop rules and regulations
- 20 under the new law to ensure that the Postal Service evolves
- 21 as a customer centric organization, positions itself as a
- value-added partner with the mailing community and
- 23 partner at large, and designs its product offerings to be
- 24 consistent with the changing needs of the consuming
- 25 public as expressed through the market. This

- 1 regulatory structure, if designed correctly, should
- 2 lead to a vibrant and to a financially healthy
- 3 enterprise that provides value to the American
- 4 people, which is what we believe Congress intended in
- 5 enacting the Act.
- I would be happy to answer any questions
- 7 the Commission may have. And thank you once again for
- 8 the opportunity to express my opinions.
- 9 CHAIRMAN BLAIR: Thank you. Mr. Emens.
- We appreciate your testimony.
- 11 Mr. Misener.
- 12 MR. MISENER: Thank you very much.
- 13 Thank you, Mr. Chairman. Good afternoon, Vice Chairman
- 14 and Commissioners.
- 15 My name is Paul Misener. I am
- 16 Amazon.com's Vice President for Global Public Policy.
- 17 Thank you very much for inviting me to testify on this
- 18 important matter.
- 19 Mr. Chairman, the Postal Accountability
- 20 and Enhancement Act, signed into law less than a year
- ago, provides tremendous opportunities for the U.S.
- 22 Postal Service and Amazon.com to better serve our shared
- 23 consumer-customers. Amazon recognizes and appreciates that
- 24 in this law Congress delegated important responsibilities
- 25 to the Postal Regulatory Commission to establish the

- framework for these opportunities. We are both pleased
- and honored to help the Commission meet its
- 3 responsibilities any way we can.
- 4 Before I suggest ways in which the
- 5 Commission might transform the Act's vision into a
- 6 reality of improved service for American consumers,
- 7 please allow me to describe Amazon.com and how it
- 8 currently uses the mail.
- 9 Mr. Chairman, Amazon.com opened its
- virtual doors on the World Wide Web 12-years-ago this
- 11 month. I was talking with the Leidheckers beforehand,
- 12 and it reminded me, a dozen years ago Amazon itself was a
- very small business. I only hope that you get profitable
- 14 faster than we did.
- 15 We seek to be Earth's most
- 16 customer-centric company, where consumers can find and
- 17 discover anything they might want to buy online. We also
- 18 endeavor to offer our customers the lowest possible
- 19 prices.
- In addition to the Amazon.com website,
- 21 we operate separate sites in the UK, Germany, Japan,
- 22 France and Canada. And just last month, we strengthened
- 23 our presence in China by launching a co-branded retail
- 24 site there called Joyo/Amazon. Although we provide our
- buyer customers a variety of new services and digital

- 1 goods, the bulk of our sales remain physical products.
- Our current selection includes 41 different categories
- 3 ranging from books to electronics and sporting goods
- 4 to grocery items.
- 5 Worldwide, we have over 66 million
- 6 active customer accounts. For calendar year 2006,
- 7 Amazon's net sales were over ten billion dollars, up 26
- 8 percent from 2005. And revenue for the first quarter of
- 9 2007 grew 32 percent to over three billion
- 10 dollars. Roughly half of our revenue is from sales in
- 11 North America, so improving delivery to our customers in
- 12 the United States remains a top priority.
- In 2002, Amazon introduced "Super Saver
- 14 Shipping" in the U.S. Customers who place qualifying
- orders of \$25 or more are eligible for this permanent
- 16 website offer which provides free delivery. Then about
- 17 two-years-ago, we launched a shipping subscription program
- 18 called "Amazon Prime," under which customers pay an
- annual fee of \$79 in exchange for unlimited free
- 20 two-day shipping on many products. As we announced in
- 21 late April, Amazon Prime use continues to grow as a
- 22 percentage of overall units shipped.
- 23 Mr. Chairman, Amazon.com faces delivery
- challenges in every country where we have customers.
- In China, for example, limited last mile options and the

- 1 rarity of consumer credit has led Joyo/Amazon to establish
- and operate a large fleet of bicycle messengers that now
- 3 provide COD service to over 300 cities, including Beijing,
- 4 Shanghai, and Guangzhou.
- In the United States, Amazon fulfills
- 6 orders using the USPS, as well as other delivery
- 7 companies, which often rely on the mail for last mile
- 8 service. We select among delivery channels based on our
- 9 customers' preferences, prices and service quality.
- 10 As Amazon.com's business has grown over
- 11 the past dozen years, so has the strength and extent of
- our partnership and interactions with the USPS. We have
- more than a dozen fulfillment centers located throughout
- 14 the United States, each of which is serviced to some extent
- by the Postal Service. Amazon currently uses several
- 16 subclasses of mail, including BPM, Media, Priority Select,
- 17 and Standard, and our dollar spending on postage was nine
- 18 figures in 2006.
- Mr. Chairman, on behalf of our
- 20 consumer-customers, we wish to seek creative ways to
- 21 enhance our cooperation with the USPS. And, if we succeed,
- 22 we envision near and long-term growth in our use of this
- 23 delivery channel, not just as our business grows, but also
- as an increasing percentage of that business.
- 25 In addition, we envision performing even

- 1 more upstream work and being recognized by the Postal Service
- with lower rates that correspond only to the costs we impose
- 3 on its network. We would like the USPS to create
- 4 services and products that are not currently available,
- 5 such as guaranteed next day and second day package
- 6 delivery. Moreover, as envisioned in the increased
- 7 pricing flexibility authorized in the 2006 Act, we would
- 8 like to work with the Service to develop contract rates
- 9 for competitive products and enter one or more Negotiated
- 10 Service Agreements for market dominant products.
- 11 Of course, Mr. Chairman, the
- 12 Commission's regulations, especially, those pertaining to
- 13 contract rates and NSAs, will play the crucial role in
- 14 determining whether the vision of the Act ultimately will
- 15 be realized. Amazon believes that these regulations
- 16 should afford the Postal Service more flexibility and
- independence to negotiate with its shipper customers,
- both on the market dominant and competitive sides of its
- 19 product lines, and with respect to performance as well as
- 20 price.
- 21 We also respectfully recommend that the
- 22 Commission resist the temptation to micromanage particular
- deals, especially on the market dominant side.
- 24 Because the 2006 Act severed the cost of service
- 25 framework, the USPS now has great incentive to protect

- its interests in these deals and there is much less
- 2 chance that losses from a bad deal would be covered by
- 3 customers for other market dominant products.
- In sum, Mr. Chairman and Commissioners,
- 5 Amazon.com is very grateful to be given the opportunity
- 6 to testify before you today, and we look forward to
- 7 working with the Commission in the coming months to
- 8 develop regulations that will serve the interests of
- 9 major shippers, the Postal Service, and most importantly,
- 10 our shared consumer-customers. If the Commission's
- 11 regulations provide sufficient business flexibility to
- 12 the USPS, we believe the farsighted vision of the
- 13 2006 Act will become reality and the future of the
- 14 mail will be very bright.
- Thank you.
- 16 CHAIRMAN BLAIR: Thank you. I want to
- 17 welcome the Leidheckers. Thank you for coming today. I
- am look forward to hearing from you, as well.
- 19 MR. LEIDHECKER: Good afternoon to you
- 20 Chairman Blair and fellow Commissioners. It is a
- 21 pleasure to be here today. It is a privilege to be a
- 22 voice for small business owners and the eBay community of
- 23 buyers and sellers.
- 24 My wife and I own and operate
- 25 YourAuctionCompany, an Internet-based small business that is

- 1 located in Montoursville, Pennsylvania. We are part of
- the large and growing eBay community and proud to have
- 3 been recognized by eBay as "Power Sellers." As an eBay
- drop-off storefront, we serve as the liaison between
- 5 potential sellers and buyers in the eBay marketplace by
- 6 selling on eBay for others. Individuals who don't have
- 7 the time or expertise to sell on eBay will contact us when
- 8 they wish to sell their antiques and collectibles.
- 9 When it comes to shipping, we utilize
- 10 USPS exclusively. We send an average of 100 packages a
- day utilizing Priority Mail. This is the preferred
- 12 choice of our eBay buyers. When requested to do so,
- we will send packages using Parcel Post. Also, roughly
- 14 30 percent of our business requires international shipping.
- So, as you can see, postal rates and service are very
- 16 important to the bottom-line of our company and the
- 17 satisfaction of our clients, both sellers and buyers.
- We are not experts on the new law, the
- 19 Postal Accountability and Enhancement Act signed by
- 20 President Bush last December. Nevertheless, as small
- 21 business owners, whose daily operations have utilized the
- 22 Postal Service exclusively for over seven years, we know
- what is important to our continued success. We have
- 24 tried to keep informed of the media channels of the
- aspects of the new law that is relevant to us. With

- this information gained, we will address the issues
- 2 raised in your letter of invitation to today's hearing.
- While your letter indicates that the
- 4 primary focus of this round of field hearings is the
- 5 modern system of rate regulation for market dominant
- 6 products, we predominately ship Priority Mail, which I
- 7 understand has been classified as a competitive product
- 8 in the new law. Many of our concerns about the future of
- 9 the Postal Service under the new law pertain to seemingly
- 10 blurry line between the competitive and market dominant
- 11 product arenas.
- 12 As I mentioned previously, the majority
- of our business involves Priority Mail shipping with a
- 14 significant portion of our business that involves
- 15 international shipments. We do use Parcel Post shipping
- on occasion. Under the new law, both of these
- 17 categories of mail are split with single piece falling on
- 18 the market dominant side of the line, while bulk mailings
- 19 as assigned to the other competitive side. What constitutes
- 20 a bulk mailing? We almost always have more than one single
- 21 piece of international mail on a given day and sometimes have
- 22 several pieces going Parcel Post. Do either of these
- 23 situations constitute a bulk mailing or will the rates I
- 24 pay in such situations be governed by the CPI rate-capped
- 25 rules for market dominant products? Since the nature of

- our business is such that we generally are unable to
- 2 qualify for drop-ship discounts that are available to
- 3 large volume mailers, the rate stability and predictability
- 4 of the market dominant rules seem preferable in these
- 5 types of situations.
- 6 Being a small business located in a
- 7 rural area, our experience has been that we do not get
- 8 details of up-coming rate increases beyond what the media
- 9 reports on the changes in the price of a single piece
- 10 stamp. This has, on occasion, resulted in problems for
- 11 us since our pricing commitments to our customers can be
- 12 overtaken by unexpected rate increases.
- 13 While we admit that we could alleviate
- 14 the impact if we had more time to stay on top of what lay
- ahead, it would be helpful if the Postal Service were to
- increase its effort to better communicate to its small
- 17 business owners, like ourselves.
- 18 That said, being caught off guard by rate
- 19 changes has the potential to be even more serious for
- 20 market dominant products under the new law. As I understand
- 21 it, in lieu of the 10 months of litigation under the old
- 22 law before a rate can be changed, the new law only requires
- 23 the Postal Service to notify you, the Postal Regulatory
- 24 Commission, at least 45 days before changes. It could
- 25 take at least that long for details the Postal Service is

- 1 planning to filter out. An equal concern is whether eBay,
- 2 PayPal and third party vendors will have sufficient time to
- 3 make updates to their programs and systems with only a
- 4 45-day notice.
- 5 Our impression is that aside from
- 6 ensuring the long-term viability of our nationwide
- 7 universal delivery system, one of the other major
- 8 considerations was to promote full and fair competition
- 9 in areas where the Postal Service overlapped with
- services offered by private delivery companies. As a
- 11 privately owned company, we support competition in the
- 12 package services arena and the benefits that choice
- 13 provides us.
- 14 While I do not claim to be an expert on
- 15 the details of the new law, I do believe that the PRC has
- 16 a moral obligation to reject any and all proposals that
- 17 might drive the Postal Service out of Priority mail or
- 18 other competitive services.
- 19 We currently utilize the resources made
- 20 available by eBay to its members, including the PayPal
- 21 software that helps us calculate postage and provides
- 22 printed mailing labels for our Priority Mail, as well as
- 23 our international packages. Although we would greatly
- 24 welcome efficiencies that an end-to-end tracking system
- 25 would provide for the packages we mail, we are otherwise

- 1 quite satisfied with the Postal Service.
- 2 Currently, by utilizing the UPS shipping
- 3 tool within eBay, all sellers currently qualify for a 31
- 4 percent discount. The PRC should adopt rules that not
- only permit, but encourages the Postal Service to enter
- 6 into similar arrangements with eBay or any other
- 7 businesses. For companies that send letters, large
- 8 envelopes and packages, there should be an option that
- 9 permits cost reducing agreements to cover the range of
- 10 what is entered in the postal system.
- 11 When we first started our business,
- 12 Priority Mail rates unzoned up to and including
- five-pound packages. As rates have increased, the weight
- 14 limit on unzoned rates has been reduced to just one pound
- packages. What used to be advertised as two pounds
- in two days for two dollars would now sound much less
- 17 catchy as two pounds in two days for somewhere between
- 18 \$4.60 and \$7.50. However, Postal Service has also
- 19 introduced offsetting options in recent years, most
- 20 notably, the flat rate box. We hope that the structure
- 21 established for competitive products does not restrict
- 22 the Service from increasing the size, shape and/or weight
- 23 limit of this or other innovations.
- In conclusion, we are pleased that you
- 25 are holding these field hearings. And I feel privileged

- 1 to have been asked as a small business owner, my wife and
- 2 I, to participate in helping the PRC with this important
- 3 and daunting task.
- We are available to answer any and all
- 5 of your questions.
- 6 CHAIRMAN BLAIR: Thank you very much.
- 7 It's greatly appreciated. We do have a
- 8 daunting task ahead of us, and that is to devise this new
- 9 system.
- 10 Part of the new system is the devil
- in the details. And I suppose we get a little wonky at
- 12 the Commission and get a little bit involved in the
- details, but details are very important. So, let me ask
- 14 kind of a wonky-detail oriented question and see what
- 15 kind of feedback we can get on this.
- One of the things we asked for in
- 17 the second Advanced Notice of the Proposed Rulemaking
- is, how do you calculate that Consumer Price Index?
- 19 Some people think it's pretty easy. You look at what
- 20 the CPI is. There are different ways of doing it.
- 21 Discussion of point to point. It can vary from month-to-
- 22 month-to-month, or point A-to-Z in the year, and
- 23 calculate what will be called a moving average.
- We got some good feedback on that, and a
- 25 number of you have definite feelings about that. We

- 1 appreciated you commenting on that.
- One of the other areas is, how do you
- 3 determine the weighting for calculating what the average
- 4 increase is going to be? If you keep in mind at the
- 5 class level, it's capped by the Consumer Price Index.
- 6 But below the class level, the Postal Service has
- 7 flexibility to the class as a whole that does not exceed
- 8 CPI. How do you calculate what that average rate
- 9 increase is for the class as a whole because there is a
- 10 different mix of mail within the class?
- One of the ways you could do it is look
- 12 at what the historical volumes have been for the year. I
- 13 call this kind of the look back. You can look at what
- 14 the different kinds of mail mix was and look at the
- 15 volume and what that volume was and calculate it based on
- 16 that. That's predictability. But it's a little bit
- 17 simpler. There's another way of doing it.
- 18 Also looking forward at projecting what
- mail volume is going to be. I wanted to see if any of
- 20 you have any strong opinions one way or another whether
- 21 or not using this look back method, which is simple,
- 22 based on historical volumes also produces a little bit
- 23 higher cap. If you do look forward, it is a little bit
- 24 more complicated, but it does have the potential of
- 25 tightening the cap a little bit so mailers may see a

- lower increase. So, what would you want to do? Trade
- 2 the prospect of higher rate increases for the simplicity
- 3 of calculating the cap or use a different method of
- 4 looking forward and maybe seeing lower rate increases?
- 5 MR. EMENS: Certainly, lower increases
- 6 are always the preferred option.
- 7 Predictability of future volumes is the
- 8 issue to kind of get your hands sort of wrapped around.
- 9 As rates adjust, clearly volumes shift. As we saw with
- 10 the last rate case, there have been some shifts in volumes
- 11 certainly in the flats arena, as opposed to letter size.
- 12 I came to this meeting with, basically,
- 13 the position that looking back was, probably, the best
- 14 predictor, or, at least, factually in terms of volumes
- 15 and how you might weight a calculation for compliance in
- 16 the CPI.
- 17 Clearly, there have been issues in the
- 18 calculations applied to predictions and so forth. I tend
- 19 to lean more toward the backward look. That's helpful.
- 20 CHAIRMAN BLAIR: Mr. Campo.
- MR. CAMPO: I, too, would concur with
- 22 Dan's view. And there are a few things.
- 23 When you focus on volume forecast that
- 24 can be flawed with uncertainties, especially, since there
- is proven share shifting going on within certain classes

- of mail, that uncertainty can lead to complexity and,
- 2 perhaps, even unnecessary legalities and lengthly
- 3 interpretations of what the volume forecast might be.
- I think in an effort to reduce the
- 5 administrative burden on the Regulatory Commission, and
- also, in order to foster a smooth transition to new
- 7 structure, that the historical data draw would be
- 8 preferred. It's empirical and lends itself better to the
- 9 mailing community.
- MR. MISENER: May I offer a slightly
- 11 different way of looking at this.
- 12 Parties that negotiate in the commercial
- world are constantly faced with this question of how to
- 14 value a particular contract to deal. And they don't tend
- 15 to view these things solely as either looking back or
- 16 projecting forward. They have to consider both.
- And so, it seems, to me, one way we might want to look at
- 18 this is, if the service has the flexibility to negotiate
- 19 as a typical private party would do, then it would be in
- 20 a better position to establish rates for a particular
- 21 product that better reflects the best quesses that they
- 22 have and the party with whom they're negotiating.
- I know you are trying to look at the
- 24 question of volume and whether we look backwards or try
- 25 to project forward. But it seems to me the Service has

- 1 the flexibility to negotiate as an equal partner, and
- they would be in a position like we, in our other
- dealings, to try to figure out the right answer without
- 4 looking solely in one direction or the other outside of
- 5 the negotiated arena.
- 6 CHAIRMAN BLAIR: How would that
- 7 influence your answer?
- MR. LEIDHECKER: For the contract rates,
- 9 looking toward the services, being as an expert in being
- 10 very close to it, if the PRC would give the Service, and
- I know this is an overused word in this context,
- 12 flexibility to use that knowledge as it negotiated with
- outside parties even within the market community.
- 14 The look back method is the best
- approach. Look back over the last 45 years or 65 years,
- 16 and you can pretty much pinpoint everything that has
- 17 happened, or what may happen in the future as far as war,
- gas shortages or gas hikes that would raise or lower the
- 19 rates.
- 20 And I think it's important because I
- 21 noticed some of my third-party vendors raised their delivery
- 22 rate up when gas rates raised, and they never really went
- down when the gas went back down. So, I think if a rate was
- risen, it could be lowered, as well.
- I think it is very important, whatever

- 1 you decide in the method that they should be published on
- a schedule. And that we could see that far in advance,
- 3 at least a year in advance or spread out of an estimate.
- 4 CHAIRMAN BLAIR: That might be hard to
- 5 do since it's based on CPI. But that's an interesting
- 6 point of view.
- 7 One of the things we thought of is,
- 8 would it be helpful that over time to see the
- 9 differences and how the index might be calculated under
- 10 the two different approaches to see how mailers would
- 11 have fared under either approach in comparison, presuming
- 12 that we adopt one over the other.
- Mr. Emens.
- MR. EMENS: Certainly, if the capacity
- 15 to calculate, if both methodologies were available and
- 16 feasible, it would make sense.
- 17 Clearly, the Commission has some
- 18 flexibility in evolving its rules and regulations as
- 19 it continues to learn more about how this process is
- 20 working and may make necessary tweaks and adjustments as
- 21 it does evolve.
- 22 CHAIRMAN BLAIR: Commissioner Goldway,
- 23 do you have any comments?
- COMMISSIONER GOLDWAY: Thank you.
- I wanted to point out that

- 1 Mr. Leidhecker's comments about adjusting prices because
- of gas hikes, for instance, might be relevant in the
- 3 context of our consideration at the exigency issue.
- 4 Because there is some concern that the Postal Service
- 5 will come to us with some sort of crisis and need to
- 6 raise rates more, and we have to have a mechanism to roll
- 7 them back again, if the crisis is reduced in some way or
- 8 another. And, I think, that's a point that should be put
- 9 in the context of our exigency question.
- I thought your concerns about being
- 11 noticed of rate increases for small mailers was very
- 12 useful.
- I wonder how we can get that information
- 14 to people at your level more. I know the USPS has its
- 15 own website.
- Do you use that regularly?
- MR. LEIDHECKER: We do. We do use that
- 18 regularly. I had a few ideas on that.
- Working within eBay, they put together a
- 20 panel of business experts, much like ourselves, in order
- 21 to filter that news out. Also, they utilize forms on
- 22 their website. I'm a member of Click-N-Ship. I could
- log into your form and interact on there.
- 24 It's sometimes sad that I know things
- 25 two to three weeks before my Postmaster when your

- 1 innovations and changes and scan form, certain things I'm
- 2 always informing them.
- 3 CHAIRMAN BLAIR: You have quite an
- 4 active eBay community out there. The chat rooms and
- 5 other forms of Internet communication. I would think
- 6 that would also be an important medium to be -- and I'm
- 7 sure you do and others do as well -- log into in order to
- 8 be kept abreast of what's going on.
- 9 COMMISSIONER GOLDWAY: But I appreciate
- 10 the issue that the Postal Service is required to give at
- 11 least 45 days notice.
- But what that notice is, is, I think,
- something that we need to consider that you have raised
- for us, and that is, making sure that the full range of
- 15 users of the Postal Service have that notice since it is
- so much shorter than what was the case before is an
- 17 interesting issue.
- 18 And then, I guess, I had a question for
- 19 Amazon, but it might work for you, too.
- 20 People want predictability and
- 21 reliability for the mail. What happens if the mail gets
- lost, if it doesn't show up under the old system, and I
- think still under the monopoly dominant product system,
- there doesn't seem to be any action anyone can take.
- 25 What do we do to make sure not only is

- this service generally reliable up to 95 percent, but
- what happens if the mail just doesn't get there? What do
- 3 you do, Amazon, if the Postal Service loses the mail?
- 4 MR. MISENER: Well, thank you,
- 5 Commissioner.
- 6 Our principle focus, of course, is to as
- 7 soon as possible make our customer whole. But we're in a
- 8 position of having to often eat the cost if something is
- 9 completely lost, and it is not necessarily clear where
- 10 the problem arose.
- There are delivery mishaps. There are
- instances when there's things like delivery in a place
- where the customer can't find them, and they're not aware
- of them. We have information on our site suggesting
- 15 customers look behind bushes and things like this for
- 16 packages that they have not found.
- The reliability that factor that we
- run into most with the Postal Service, however, is not
- 19 the missed delivery, but rather the delivery guaranteed
- 20 -- the timing of delivery -- where customers have paid a
- 21 premium, a subscription rate for getting guaranteed
- 22 delivery, either two-day delivery, or with an extra \$4 a
- 23 one-day delivery. So, clearly, in that circumstance, the
- 24 customer is valuing the promise that we're making about
- when the package will be delivered.

1	And what we would like to be able to see
2	out of the Postal Service is a new product whereby they
3	can guarantee to us this same kind of delivery so that we
4	can pass along the guarantee to our customers, so if we
5	miss it, we are not always the ones that are having to
6	refund the shipping fees.
7	COMMISSIONER GOLDWAY: That's in the
8	context of a Priority Mail product or priority package
9	product?
10	MR. MISENER: That's correct. Well, a
11	one- or two-day service.
12	COMMISSIONER GOLDWAY: I think the issue
13	of predictability in competitive products is something
14	that we will, probably, have to look at in the future, if
15	not immediately as we set up regulatory schemes.
16	I appreciate those issues being brought
17	to the floor. I will defer to other Commissioners, who
18	I'm sure have lots of other questions.
19	CHAIRMAN BLAIR: You touched on a good
20	topic here, which are the service standards and reporting
21	of performance measurements.
22	And before I yield to Commissioner
23	Tisdale, I just wanted to ask one question for the panel,
24	and that is, how granular, or how detailed should that

reporting be?

1		I noticed in Mr. Emens' statement, you
2	р	ose an interesting concept that service should provide
3	i	nformation that's sufficiently granular to provide
4	р	erformance data by three digit zip code pairs.
5		Well, I'll play devil's advocate here.
6	I	'm the Postal Service. What, are there 800,303 digit
.7	Z	ip code pairs? I forget how many hundreds of thousands,
8	a	nd I'm sure I'll be corrected at some point by someone.
9	I	sn't that a terribly burdensome requirement to be
10	р	lacing on this entity at this time? Why couldn't the
11	S	ervice just propose one nationwide figure? Why isn't
12	t	hat sufficient for providing any kind of accountability
13	a	nd transparency that Congress requires when they ask the
14	S	ervice to develop these new service performance these
15	n	ew service standards and report on the performance?
16		MR. EMENS: In response, Chairman Blair.
17		I would say I'm not suggesting that
18	е	very single three digit be evaluated. Clearly, we have
19	t	o look at the volumes that are moving through either to
20	0	or from three digits areas.
21		CHAIRMAN BLAIR: No. I understand that.
22		So, are you just saying, then, that we
23	s	hould only report on volumes between major cities and
24	1	eave out the rural areas of the country?
25		MR. EMENS: I don't think we can exclude

- them. But, I think, we have to be sensible about what we
- 2 try to measure.
- 3 Clearly, if I have three pieces going
- 4 into some remote area in Alaska by sled dog, that is not
- 5 what I'm meaning to imply.
- 6 Clearly, in looking at it on a national
- 7 scale, I don't see the granularity to really effect the
- 8 outcome. It's too broad of a measurement.
- 9 So, without being able to look at the
- 10 regional differences that occur throughout the country, I
- 11 mean, we could have a hurricane in the southern region.
- We could have snowstorms in the midwest. Without having
- that regionalization in terms of the view, those are
- things not apparent or measured properly.
- 15 CHAIRMAN BLAIR: Mr. Campo.
- 16 MR. CAMPO: I think this also proposes a
- 17 unique opportunity. It's a confluence of technology
- 18 meeting opportunity.
- But the intelligent mail project that
- 20 the Postal Service is involved with right now, under the
- 21 tutelage of Tom Day, is one that has us very excited.
- I know that during the hearings that you
- 23 held at the Potomac Bolger Academy, I believe it was the
- 24 gentleman from Book Span who said, track and trace is at
- 25 the table stacks for being in the shipping business.

1	And in order to support our friends from
2	the auction business, I think the ability to be able to
3	track and trace your shipments on the competitive side of
4	the business is very important. And then you just segway
5	right over to the letter mail categories with the
6	implementation of the intelligent mail bar codes that are
7	available today, along with the use of wide fielded view
8	cameras and the various algorithms, without getting too
9	technical, the various algorithms to actually view each
10	mail piece as almost having a license plate that's
11	trackable from its induction in the system to its either
12	last automated scan or final hand scan.
13	These are days that allow this
14	opportunity to be executed by the Postal Service, and
15	Pitney Bowes would encourage them to focus quite a bit on
16	it.
17	CHAIRMAN BLAIR: Sr. Georgette.
18	SR. GEORGETTE LEHMUTH: Yes. I would
19	agree with that, that the technology continues to
20	develop. The intelligent bar code, of course, is one way
21	that is going to help be able to do the reports that we
22	are talking about.
23	For us charitable mailers also enables

For us, charitable mailers, also enables
us to be more accurate, both in our testing of our
product, our pieces that we send out to see where our

- 1 potential donors are, as well as any actual sending out
- of large mailings. We can track it. We can also then be
- 3 in better contact with the Postal Service and say, This
- 4 is what's happening in this region. And we were able to
- tell by the reports you have given us that we can't serve
- 6 our members as well as we would like to.
- 7 I also wanted to say something about,
- 8 when mail is lost for us, it's lost, and the revenue is
- 9 gone and the charity loses. There's no way for us to
- 10 recoup that. So, when that happens to us, or when it
- gets there too late to meet event deadlines, it's just a
- 12 total loss for us.
- 13 CHAIRMAN BLAIR: But with the
- 14 intelligent bar code, you will be able to report that per
- 15 customer?
- SR. GEORGETTE LEHMUTH: Yes.
- 17 CHAIRMAN BLAIR: But when the reporting
- 18 service performance, or performance against these service
- 19 standards, you know as a customer how they're doing. But
- 20 do you want it reported by region, by the three digit
- 21 pair which you suggested? Do you have ideas out there
- 22 that you would like us to take back to the Service?
- 23 We put out a notice in the Federal
- 24 Register regarding our consultation that we are engaging
- 25 with the Postal Service regarding the service performance

- 1 standards. But do you have any thoughts or concerns that
- 2 you would like to voice to us at this point that we can
- 3 take back when we engage with the Postal Service further
- 4 in this discussion.
- 5 SR. GEORGETTE LEHMUTH: We would prefer
- 6 the three digit, if, at all, possible. Regional would be
- 7 secondary. But we just believe that the technology is
- 8 there.
- 9 CHAIRMAN BLAIR: For the three digit
- 10 pair?
- SR. GEORGETTE LEHMUTH: Yes. For the
- 12 three digit.
- 13 COMMISSIONER GOLDWAY: Mr. Campo, is
- 14 this what you referred to when you were talking about
- open architecture. Any user of the mail can go in and
- 16 see where his or her mail is at a particular time because
- of the intelligent mail bar code?
- 18 MR. CAMPO: That's quite an excellent
- 19 assessment of what I had stated.
- I think it's important that the open,
- 21 let's call it, the open architecture and the transparency
- of data be available to those who create the mail. Those
- 23 who have a need to track it. Those who receive the mail.
- I think that technology today allows for
- 25 that kind of transparency into the operational mail

- 1 stream. And we would encourage it not be sequestered
- 2 into one view. We like the idea of being able to see as
- 3 much of it as possible.
- 4 CHAIRMAN BLAIR: Ms. Leidhecker.
- 5 MS. LEIDHECKER: Being a technology
- 6 based company, we are always looking forward to
- 7 innovation and technology and so forth.
- But for us, for our business, we prefer
- 9 end-to-end tracking. The package gets lost and a
- 10 customer contacts us wondering where their package is,
- sometimes we have to take the loss and either refund, or
- 12 sometimes we don't see the package again.
- So, it is important for customer
- service, which is number one for us, that that's an
- 15 alternative for us for our success.
- 16 COMMISSIONER GOLDWAY: One of the minor
- issues that we're looking at is the special services that
- 18 the Postal Service provides, which would include
- 19 insurance or certified mail or signature quaranteed.
- 20 So, you might want to look at the issues
- 21 that are presented in the regulatory scheme and give us
- some ideas on how we might approach those service
- 23 standards. Because we have to set up service standards
- for those special services, as well, or we have to work
- with the Postal Service in setting up standards. And

- 1 then, setting up the standards is something that the
- 2 Postal Service ultimately does with consultation from us
- 3 and the public.
- But then being assured that they meet
- 5 those service standards is something that we are obliged
- 6 to do. So, our concern is that the service standards
- 7 measurement scheme addresses everybody's needs and then
- 8 that the measurements are possible. And that we can then
- 9 be accountable later on.
- 10 We don't, as the Chairman said, you
- don't want to do something that's so complicated, that
- 12 you can't measure it. And then, there is no way to make
- 13 people accountable for it. We have to create the
- 14 balance.
- MR. LEIDHECKER: We require insurance on
- 16 every package that goes out. It is almost a marketing
- thing for us because I know if there was a problem and a
- 18 package was damaged, the customer would have to wait
- months to get their money back, or they never get their
- 20 money back.
- 21 Many times, they'll file a claim, and
- 22 I'll get a postcard from them, the Postal Service
- 23 requiring proof. Then I have to send that in. It's a
- 24 big back and forth. And in some cases, if they send it
- 25 directly back to me and I try to file the claim for them,

- 1 I eat the cost. My Postmaster didn't -- I don't meet the
- 2 qualifications or something. We send a ton of money your
- 3 way because every package goes out with insurance. But
- 4 it's not efficient at all. It's a big question and
- 5 answer. There's a lot of mistrust there. I'm sure you
- 6 broke it. So, it's not an easy thing as far as
- 7 insurance.
- 8 On our end, eBay is an interesting
- 9 machine. Because it's the only business in the world
- 10 that's moderated by feedback. And if you're not a good
- seller and do not perform, you'll get negative feedback.
- 12 And a certain number of negative feedbacks, you're off
- 13 the site.
- 14 For us, maintain 99.9 percent positive
- 15 feedback. And we do that by customer service. If a
- 16 package gets lost, we refund it instantly and eat that
- 17 cost.
- As far as a tracking system, the
- 19 technology is available. Other competitors use it where
- 20 they actually have GPS units in their car -- in the
- 21 delivery vehicles.
- 22 A GPS is zoned to be set up in the
- 23 vehicle, and when an item, much like a hand scanner, when
- an item entered a vehicle was scanned, that's the other
- 25 biggest problem that eBay has is transmitting the data

- from when we print a label, it will never update.
- So, I get 50 to 100 E-mails an hour
- 3 asking where's my package. It says you mailed it, but
- 4 the Postal Service didn't get it. And it's out the door.
- 5 It's halfway there.
- 6 CHAIRMAN BLAIR: You said you used
- 7 Priority Mail. You send out 100 packages via Priority
- 8 Mail a day.
- 9 What other carriers do you use?
- 10 MR. LEIDHECKER: We've used USPS
- 11 exclusively for the last seven years.
- 12 I'll add to that, because of the free
- 13 priority boxes.
- 14 However, when I research other
- 15 competition that don't offer boxes, because that's a huge
- 16 cost for us because I'm trying to be competitive with
- 17 eBay, if somebody has it for \$15 or for \$23, they're
- 18 going to go with the person that has \$15 for shipping.
- 19 And when the rates went up, our bid prices went down.
- 20 Our customers, actually, have been losing money, because,
- 21 now with UPS offering 31 percent discount to every eBay
- 22 seller large or small, what would cost \$15 with you guys
- for a five-pound package costs \$5.95 with UPS.
- So, for me, do I want to buy boxes? If
- 25 you guys eliminate boxes -- I mean, you eliminated tape.

- If you eliminate boxes, I have to stay competitive. I
- 2 would like to see innovation there. I would like to see
- 3 rewards for large sellers. I would like to see tape come
- 4 back and other innovation to stay competitive.
- 5 If you add end-to-end tracking to your
- 6 services before the rate increase, you would have blown
- 7 everybody out of the water and took all of the
- 8 competition, I believe, as far as small businesses and
- 9 eBay sellers, such as myself, because that's what I'm
- 10 looking for.
- 11 You don't charge to pick up. He comes
- twice daily to pick up. But everyone else charges to
- 13 pick up. So, we are looking for a lot of service and a
- 14 lot of value, as well.
- 15 VICE CHAIRMAN TISDALE: I heard some
- 16 concern, basically, about tracking packages and knowing
- 17 where they are.
- I was just wondering, I know the Postal
- 19 Service offers a service called Confirm. I don't know if
- 20 any of you have used it. I'm curious to see what your
- 21 experience might be.
- MR. LEIDHECKER: Are you referring to
- 23 Delivery Confirmation? That just lets me know it was
- 24 delivered.
- VICE CHAIRMAN TISDALE: No. No. No.

Not Delivery Confirmation. 1 COMMISSIONER GOLDWAY: Signature. 2 MR. LEIDHECKER: Signature. 3 COMMISSIONER GOLDWAY: It's done automatically with the tracking number. 5 6 MR. LEIDHECKER: Yes. It's Delivery Confirmation with that little green form. It's not real 7 8 time. It's free when you ship on-line, when you print on-line, and it never updates. If it updates at the end, 9 if it updates at the end, I would actually have to 10 physically take it in and ship it from the Postal Service 11 from my local post office for it to scan in. 12 But as I'm requesting pick ups daily, 13 there's no way for him to scan every single one. So, 14 it's on every package for free, but it doesn't work. 15 That's when I was referring to the 30 to 100 E-mails a 16 day. They get an e-mail as soon as I click print, but it 17 doesn't say anything. It just says I printed a label, 18 and that's it. It does not say it has been transferred 19 20 to the Postal Service. COMMISSIONER GOLDWAY: How about others? 21 MR. CAMPO: Commissioner Goldway and 22 Vice Chairman Tisdale, there are some cutting edge 23 technical solutions to the issue that was just brought 24

25

up.

. 1	If you have multiple, say, 50 or 70
2	packages that are being picked up in one pickup, there is
3	the ability to create a manifest with a 2D bar code that
4	can be representative of all of those packages that are
5	in there and that can be scanned.
6	And, I believe, that, again, is part of
7	it wouldn't represent 50 or 70 scans. It would
8	represent one kind of a nesting strategy. If you can
9	envision those Russian dolls, you keep going and going
10	until you get to the smallest granular part. In this
11	instance, the Postal Service is working on a solution set
12	that follows kind of that nesting theory of taking a
13	package and putting it on a box or a carton and then onto
14	a pallet and then into a truck with a GPS.
15	So, I think that we're getting there. I
16	think we're getting there. But I would like to let you
17	know, too, the Delivery Confirmation is something that we
18	provide as solution sets for the package business. And
19	we hear constantly from our First-Class mailers and our
20	Standard A mailers who are using envelopes as a medium
21	that they would like it on that, too.
22	VICE CHAIRMAN TISDALE: Maybe with the
23	invention of the intelligent bar code maybe that would
24	get some of that taken care of.

Sr. Lehmuth, you mentioned some things

- 1 about the Postal Service controlling their costs. I know
- there are some costs they can't control. Every one cent
- 3 rise in the price of gasoline cost the Postal Service
- 4 about eight million dollars a year.
- 5 Can you elaborate on some of the areas
- 6 that you think it could look at to maybe have a little
- 7 better control over?
- 8 SR. GEORGETTE LEHMUTH: I think if they
- 9 make an effort to be more transparent and are able to be
- 10 more accountable that they will be able to recognize some
- of the costs that, perhaps, could be trimmed, or could be
- 12 changed.
- 13 I think it's a fact that we need to be
- able, or the Postal Service needs to be able to be more
- 15 clear about how it's spending, why it's spending, and how
- 16 that's related to the services it's providing. If it can
- 17 be more transparent in its own internal reporting and its
- 18 reporting to you, I think it could be obvious where
- 19 savings could take place. I don't have specifics.
- VICE CHAIRMAN TISDALE: Thank you.
- 21 CHAIRMAN BLAIR: Commissioner Hammond.
- 22 COMMISSIONER HAMMOND: Thank you,
- 23 Mr. Chairman.
- I have a broad question that I've been
- 25 trying to get as many people as possible on record for

- their thoughts on as we've gone around the country.
- 2 Dealing with the new legislation
- 3 requires eventually that our Commission and the Postal
- 4 Service and, possibly, ultimately, our elected
- 5 representatives are going to deal with the issue of
- 6 universal service.
- 7 I was just wondering if any of you, or
- 8 all of you, if you want, might discuss the effect the
- 9 changes in universal service might have as far as your
- 10 particular situation is concerned or whether universal
- 11 service is important to you or not.
- Does anyone want to tackle that?
- I know everybody doesn't want to talk
- about it to start with, but when we get going everybody,
- 15 but anyway...
- Paul, would you like, or Mr. Misener,
- 17 would you like to talk about what kind of effect it might
- 18 have on Amazon?
- MR. MISENER: Yes, Commissioner. Thank
- 20 you.
- Obviously, we are not mailers of First-
- 22 Class or Standard Mail. Our business is delivering of
- 23 parcels. But our customers are all over the country. In
- 24 fact, in some instances, our best customers are those

- that don't have available the urban or suburban markets
- 2 available to them. So, universal service of parcel
- delivery is extraordinarily important to us.
- 4 And the USPS is particularly important
- 5 in these rural areas, where other carriers are simply not
- 6 available for the last mile delivery. So, it is an
- 7 important component of the mission of the Service. And
- 8 we certainly would like to see, of course, the
- 9 preservation of that universal service.
- 10 As I said before, we are in a position
- of, if the Service were able to offer some new products,
- we would actually be able to shift some of our mailings
- 13 to the Service, not just as we grow as a company, but
- 14 actually ship as a percentage of what we ship. And we
- are just hoping to see that flexibility given with the
- 16 service and preservation of universal service will go
- 17 along with that hand in hand.
- 18 The health of the Postal Service overall
- 19 would be maintained, on these competitive products, if
- 20 they're available to offer the sort of flexible services
- of new products that we are looking for, and also it
- 22 would be a way of maintaining universal service where the
- 23 other carriers are not available.
- MS. LEIDHECKER: Thank you, Commissioner,
- 25 for posing this question.

1	It should go without saying, the universal
2	service, delivery everywhere, is of critical importance
3.	to our business.
4	The Postal Service does not charge or
5 .	discriminate. Say, for example, when a package is going
6	to a residence is another important aspect of universal
7	service.
8	COMMISSIONER HAMMOND: Sr. Lehmuth.
9	SR. GEORGETTE LEHMUTH: Universal
10	service, sometimes when we talk about it with our
11	members, we say what is it and can it be defined
L2	differently, perhaps.
13	When we talk about the Postal Service
14	having a monopoly in the sense it delivers to everyone, I
15	don't think that monopoly is threatened if universal
16	service, perhaps, is considered or refineable. And there
17	could be different ways of looking at what that means
18	without affecting the fact that it goes to everyone.
19	What does going to everyone mean?
20	MR. CAMPO: Commissioner Hammond, I
21 .	would like to weigh in on the universal service because
22	it presents an opportunity.
23	As the country grows in population and

in deliverable addresses, approximately, 1.8 million new

addresses every year are created. There are some unique

24

25.

- 1 opportunities.
- One of them is in the area of security.
- 3 Universal service, and I define that as six days a week
- 4 to every address, every deliverable address in the United
- 5 States, it provides a channel of almost daily federal
- 6 contact with the communities at large.
- 7 Number two, universal service also
- 8 fosters a climate where voting by mail can be expanded,
- 9 and it seems to have taken hold quite nicely in the
- 10 western parts of the United States. Removing the ability
- 11 to have universal service would also remove, I think, the
- 12 strength of that project.
- 13 And also in the area of the delivery of
- 14 pharmaceuticals, pet medicines, things of that nature to
- 15 places that are remote in Montana, or Wyoming, Alaska,
- 16 universal service provides an ability to do that.
- 17 And in light of the growers of various
- fruits and perishables to diminish universal service
- 19 either by number of days or number of points, I think
- 20 could have a dampening effect on the economy.
- 21 COMMISSIONER HAMMOND: Thank you, all.
- 22 CHAIRMAN BLAIR: Just one comment on
- 23 that. It's interesting.
- 24 One of our sister regulatory commissions
- 25 right now has extended the comment period for comments

- 1 regarding competitive products and the study that they
- 2 are doing under the Postal Accountability and Enhancement
- 3 Act. And one of the commentors to the FTC
- 4 a citizen group urged for elimination of the mailbox
- 5 monopoly, which is a critical component of the overall
- 6 postal monopoly.
- 7 The Postal Service has always
- 8 maintained, as many do, that opening the mailbox would
- 9 lead to more criminal activity and would pose a risk to
- 10 the mail stream. I don't know if you all had views or
- 11 comments on that aspect, as well.
- 12 Currently, the Postal Service has that
- 13 exclusive right to your mailbox. Some would like to see
- 14 that rule removed or amended. I don't know how you feel.
- MR. LEIDHECKER: If you can clarify
- 16 that. They would not be able to --
- 17 CHAIRMAN BLAIR: Well, right now, the
- 18 Postal Service has exclusive rights to your mailbox. No
- other carrier can put anything in the mailbox.
- For instance, like your local newspaper,
- 21 it can't be delivered unless it's delivered by way of the
- 22 mail to your mailbox. We're the only country that has
- 23 that rule. And many would argue that that rule protects
- 24 the sanctity of the mail from criminal activity, from
- others getting in your mailbox that should not be in

- 1 there.
- 2 Others would say that that rule should
- 3 be opened up. They made a comment that if we're looking
- 4 at aspects of universal service, one aspect of that
- 5 universal service is how and where that mail is
- 6 delivered. Mail is now being delivered in many
- 7 instances, especially, in new subdivisions and to new
- 8 locations by way of cluster boxes. It is not to your
- 9 home. It is to the cluster box that is out to the curb.
- 10 Should others have access to that mailbox, as well? I
- don't know if you all had a point of view on that.
- 12 MR. LEIDHECKER: I don't think they
- should. It's so often that I get packages from other
- 14 carriers in my mailbox. Small packages right in there.
- 15 CHAIRMAN BLAIR: Postal Inspection
- 16 Service won't be in there.
- 17 MR. LEIDHECKER: It was an interesting
- 18 thought that I was thinking of that other countries
- 19 don't have that.
- 20 It is kind of a reverse thinking that if
- 21 warehouses were set up, like a P.O. Box, the customer
- actually comes to a P.O. Box, and they wouldn't be
- 23 charged for a P.O. Box, it would be free because it's
- 24 easier for the systems to put the mail in there versus
- 25 the other way around. I don't want to say this, charged

- 1 to deliver the mail to -- if that ever came in place --
- 2 charged \$20 a year to deliver to your house for
- 3 convenience because there are many other countries that
- 4 the customers have to go and pick up their mail.
- 5 CHAIRMAN BLAIR: Some countries do that
- 6 now. I'm not sure that American postal customers would
- 7 put up with that would be my gut instinct on that.
- 8 Mr. Misener, you look like you wanted to
- 9 engage in this.
- MR. MISENER: Well, first of all, I
- 11 would hope that our customers are ordering things so
- large that they can't fit in the post boxes.
- Second, as far as utilizing the
- infrastructure of the Postal Service. We're in a
- position because of the way we sort and process our
- shipments outbound and the volumes in which we deal, we
- 17 can use less of the Postal Service's downstream
- 18 infrastructure.
- We would hope to be in a position to
- 20 somehow be rewarded for that. But the last mile still is
- 21 the province of the Service. And we recognize, of
- 22 course, there are the competing carriers that we do use
- for some of these deliveries.
- 24 But it's a shame that for the overnight
- and two-day prime services, that we can't look for the

- service for it at this point. We are hoping the new
- 2 products would allow us to.
- 3 CHAIRMAN BLAIR: Well, I think the new
- 4 law would allow that flexibility.
- 5 VICE CHAIRMAN TISDALE: Before we get
- 6 away from the idea of universal service, there is one
- 7 other thing that comes to mind, and that's the proposal
- 8 that has come up in several states for a Do Not Mail
- 9 list.
- 10 And I was wondering if you would like to
- 11 comment on that.
- MR. EMENS: Other than our acknowledge
- of our opposition to that movement.
- 14 COMMISSIONER GOLDWAY: That's it.
- 15 MR. CAMPO: I don't think that's it. I
- think Pitney Bowes would agree with J. P. Morgan, we oppose
- 17 the notion of that.
- But I think there's also a
- 19 responsibility that goes with that opposition. And that
- 20 responsibility is to have clean mailing lists to make
- 21 sure that you're mailing a piece of mail that is supposed
- 22 to get where it's supposed to go to and to generate the
- 23 right type of response.
- 24 Nothing is more frustrating than getting
- an American girl catalogue when you have three boys.

- 1 The bottom line is, I think there is a
- 2 responsibility that mailers have to clean up their list.
- 3 To adopt the delivery point validation that the Postal
- 4 Service is rolling out in August. And to have a clean
- 5 and pure a mail piece as possible so that it gets to the
- 6 intended recipient.
- 7 MR. EMENS: Certainly, I would agree
- 8 with Mr. Campo's comments. Clearly, we have a
- 9 responsibility to really target and keep our list clean
- 10 and appropriate to the recipient.
- I would like to also offer as opposed to
- 12 do not call activities, I found that much more intrusive
- on a personal level. With a piece of mail, I have a
- 14 choice. I can choose to open it, read it, or dispose of
- 15 it without having someone constantly trying to give me
- 16 the new pitch.
- With the Do Not Call list, when someone
- 18 called me during dinner, I'd say, I'm sorry, I'm not
- interested, and if they continued with their story, you
- 20 finally hung up on them.
- 21 I don't think the same circumstance
- 22 exist with the mail.
- 23 Clearly, the American public likes
- 24 receiving mail.
- 25 SR. GEORGETTE LEHMUTH: I was going to

- 1 say the same thing. It is much less intrusive than a
- 2 phone call.
- And also, most of us are very conscious
- 4 of giving people the opportunity, at least, my charity
- 5 though, of opting out of the mail. We do that several
- 6 times a year. So, folks do have the opportunity to say,
- 7 please do not mail to us.
- 8 COMMISSIONER GOLDWAY: On another line
- 9 of questioning.
- 10 A few of you touched on the issue of
- 11 moving from flats to letters as a result of the new shape
- 12 based pricing policy. That's certainly one of the hopes
- of implementing the new shape based policy was to move
- mail to a place where the cost of it is so much lower
- that you have a more efficient system.
- Has mail actually moved from flats to
- 17 letters, and what's the impact on the mailers when
- 18 they've done that, when they've moved from letters to
- 19 flats?
- 20 SR. GEORGETTE LEHMUTH: From my point of
- view, many of our members, and I was the one who said
- 22 that in my remarks, are trying to move away from flats or
- from a different shaped mailing in order to meet the
- lowest possible mail rates.
- It's a difficult trade off for them.

- 1 Because, obviously, we're in competition with everyone at
- 2 this table and many other charities for what goes into
- 3 the mailbox of our donors. And sometimes having mailed
- 4 that's shaped a little differently, obviously, has or
- 5 allows your mail to be distinguishable from others.
- It's not an easy decision to make. But
- 7 we also recognize that in order to make our mail more
- 8 distinguishable with the Postal Service, it has a right
- 9 to say it will cost you more to do that.
- But the issue wasn't so much about it
- 11 happening. It was about how it happened. So, what
- seemed to us to be rather quickly, and for some of the
- issues around not being able to meet the implementations,
- 14 or what some of the regulations and restriction and
- 15 rulings about how that mail was going to happen is what
- 16 caused our folks to say, Well, let's just stay away from
- 17 flats as best we can.
- And as a result, I think once they made
- 19 that shift, I'm not so sure they are going to go back to
- 20 where they were with flats. It will probably take a
- year, though, for us, to really know how that's impacted
- our members because they don't know what the results are
- going to be of sending out mail that went out in
- 24 different forms in new forms and how people will respond
- 25 to that, or if they will recognize it as the package they

- once received in a different form.
- So, I think we are about a year away
- 3 from being able to tell you, to answer your question
- 4 accurately.
- 5 CHAIRMAN BLAIR: One of the things I
- 6 would like to wrap up with, and this was questioning that
- 7 Commissioner Goldway raised earlier. The 45 day notice
- 8 that the Postal Service would give before it raises rates
- 9 under the cap.
- 10 Do you all have any strong feelings
- 11 about what you would like to see in that 45 day notice?
- What the Postal Service should be providing? Should
- there be a period for public comment that the
- 14 Commission receives? What exactly should take place
- 15 within that 45 day period?
- MR. CAMPO: Chairman Blair, as a company
- 17 that provides a significant amount of software and
- 18 technology to the mailing community, I think someone
- 19 mentioned a little bit earlier 45 days is very, very
- short when it comes to testing, retesting, integrating
- 21 software.
- By the way, it doesn't just effect the
- 23 mailing industry on the commercial side. The Postal
- 24 Service has POS systems. They have kiosks. They have
- 25 internal systems that all require updating of postal

- 1 rating software on their side. So, they feel as much
- 2 pain as, I think, the commercial sector can feel at
- 3 times.
- 4 My message would be that if, indeed, it
- is 45 days, as stated by law, that there aren't any
- 6 quirky changes that come up on the 27th day that require
- 7 a whole new batch of code writing, both for our customers
- 8 and for the company that I represent and the industry.
- 9 SR. GEORGETTE LEHMUTH: I think I would
- 10 have to agree with what has been said, especially, in
- 11 terms of once the 45 -- although it seems very short to
- 12 us -- the 45 days. If it has to be that, that everything
- be in place when we are notified of that 45 day notice.
- I think some of the real confusion that
- 15 happened with the flats was that it seemed to us like the
- 16 rules kept changing. We would get packages approved and
- then got disapproved and things just got more compacted
- and shorter and shorter until the mailers were in a panic
- 19 to know how they were ever going to meet the regulations.
- 20 Some of our vendors worked very hard
- 21 with the Postal Service to try to come up with packages
- 22 that would fit and the rules, at least from our
- 23 prospective, seemed to be changing and the ground kept
- 24 quaking on us.
- 25 And the other part that I learned at the

- 1 May symposium on flats was that even though it was clear
- what the specifications were now to meet the Standard
- 3 Mail for flats, the implementation wasn't universally in
- 4 place at the Postal Service. And there was even
- 5 confusion stated at that hearing, at that symposium,
- 6 Well, it won't be at this center, or it won't be at that
- 7 center. We're not sure when the machines are going to
- 8 get here.
- 9 So, I think if everythings got to be in
- 10 place, if it's going to be 45, the more that can be in
- 11 place, the better it will be for all of us to use your
- 12 services.
- 13 CHAIRMAN BLAIR: One of the biggest
- 14 areas I see for confusion is when rates go above the cap,
- 15 even though the average for the class is at or below.
- 16 And that's where I see the biggest problem is that people
- 17 will, or that mailers will come in and say, This is in
- 18 violation of law, when, in fact, it may well be within
- 19 the compliance of the law. I think that will be the
- 20 single, one of the single, hardest areas to effectively
- 21 communicate.
- SR. GEORGETTE LEHMUTH: I do believe,
- 23 Commissioner Blair, the more things are predictable for
- 24 us, the less we will be butting heads with each other in
- 25 terms of trying to meet regulatory requirements.

- 1 MR. EMENS: I would like to offer a
- 2 slightly different view. I agree with my colleague's
- 3 statements.
- But some of the concerns I have is under
- 5 the PAEA, the post office is given flexibility to operate
- 6 more like a business. Typically, businesses will engage
- 7 their partners well in advance of making changes in their
- 8 business.
- 9 Certainly, we would look to the Postal
- 10 Service to act in that way.
- 11 Under the old law, the implementation
- 12 rules typically were not filed until after the rates were
- 13 set to be implemented. And everyone is in a scramble,
- 14 certainly software providers, business mailers, et
- cetera, in trying to make adjustments to our business
- 16 plans to the software that we use to process and prepare
- 17 our mailings.
- So, again, I think 45 days is
- 19 problematic, certainly when you have significant changes
- 20 that could occur.
- 21 But clearly, information needs to be
- shared much earlier on in the entire process.
- 23 Additionally, though, I think to your
- 24 question as to whether there should be a period of public
- 25 comment. No, I think, really it's the task of the

- 1 Commission to evaluate whether the proposed, or the rate
- 2 adjustment, as proposed by the Postal Service, is in
- 3 compliance with the law, which clearly states it be
- 4 within the CPI index base.
- 5 CHAIRMAN BLAIR: Wouldn't public comment
- aid the Commission in making the determination?
- 7 MR. EMENS: I'm not sure you'll have the
- 8 time. But, I think, more appropriately, the annual
- 9 compliance review and through the complaint process that
- 10 you develop is probably the appropriate place for those
- 11 types of challenges or concerns to be raised.
- MR. MISENER: No comment.
- 13 MR. LEIDHECKER: Again, this is where
- 14 technology comes in.
- 15 Our problem arose, not so much this time
- of knowing about it, because it was on the front page of
- 17 eBay. It's in my messages and e-mails. It was the third
- 18 party, as Pitney Bowes talked on the implementation on
- 19 it.
- 20 We run seven-day auctions. So, where a
- 21 customer said paid here, the rates went up over here. Or
- if they waited, we lost \$400 to \$600 a day for a week
- 23 until it changed. And if the rates would go up again
- 24 without reassurance that I would know that software is in
- 25 place somehow. So, I'd have to fulfill my obligation to

- 1 the original rate that I paid.
- 2 The other option is not for me to shut
- down for a week -- four weeks of seven-day auctions.
- 4 That's hugely detrimental.
- 5 The other problem arose, when I went to
- 6 the post office to seek help, to see anything, their
- 7 point of sale systems weren't operational until the day
- 8 of. And all of their staff was not -- they had just a
- 9 printout of what, perhaps, it would do or wouldn't do.
- 10 And I didn't get it until this last month, when I went to
- an eBay live conference of 10,000 people, a large, nice
- 12 booklet from the Postal Service representative there.
- 13 Even at that, it's difficult as far as the rate and the
- 14 sizes of different things.
- So, 45 days, as long as technology is in
- 16 place well ahead in the third party, because, if the rate
- 17 goes up again, I'm not sure how -- if an auction is on
- for seven days, like in our case, at the end of the seven
- 19 days, an auction ends and the rate goes up on eighth day,
- 20 well, for seven previous days, they were quoted a lower
- 21 rate, and that's where we ran into the problem. We had
- 22 to ship and pay that and cover the excess.
- 23 CHAIRMAN BLAIR: Thank you very much.
- 24 Any other questions?
- 25 COMMISSIONER GOLDWAY: Very interesting.

1	CHAIRMAN BLAIR: Any other comments or
2	questions or comments from Commissioners?
3	CHAIRMAN BLAIR: Well, I want to thank
4	you very much.
5	Again, this is the third hearing, and, I
6	think, the third hearing has met and exceeded our
7	expectations as I think this whole set of hearings has
8	for us.
9	We will be able to take much of what you
10	have given and it is going to really help our work
11	product, as we've formulated over the summer, in getting
12	out proposed regulations and getting out the final ones.
13	As with any organization, I want to
14	first thank the Commissioners for their indulgence and
15	for their efforts in coming forward and work that they
16	put out and making these hearings successful.
17	But we couldn't have done it without the
18	support of the people that work for us at the Commission.
19	We are only as good as they are. So, I want to thank my
20	Chief of Staff, Ann Fisher. My special assistant, Judy
21	Grady. Nanci Langley. All of the special assistants.
22	April Boston. Michael Ravnitzky. Louis Honore. Paul
23	Harrington. Paul, thank you for your driving skills
24	today, as well, and the Commission Staff. And we have
25	Jeremy Simmons, who is a third year law student from

± .	noward oniversity, who is our intern.
2	I want to thank the workers at the U.S.
3	Postal Service. They put out a great product. I want to
4	acknowledge in the audience today some of the postal
5	employees that are here with us. We have Joanna Korker,
6	who is the district manager for South Jersey District.
7	Thank you for coming. We appreciate your attendance at
8	this hearing, as well.
9	We have Ray Daiutolo. If I butchered
10	your name, forgive me. He's the Communications and
11	Program Specialist in Philadelphia.
12	We have Judy deTorok, who is the Manager
13	and Policy of Planning and Government Relations and
14	Matthew J. Connolly, as well.
15	So, I want to thank you all for
16	attending and for making this set of hearings very
17	successful. So, with that, I get to bang the gavel
18	the last time. And the hearing is now concluded.
19	(Postal Regulatory Commission Field
20	Hearing was concluded at, approximately, 3:50 p.m.)
21	
22	
23	
2.4	

1	CERTIFICATE
2	STATE OF DELAWARE:
3	NEW CASTLE COUNTY:
4	I, Gloria M. D'Amore, a Registered
5	Professional Reporter, within and for the County and
6	State aforesaid, do hereby certify that the foregoing
7	Postal Regulatory Commission Field Hearing, was taken
8	before me, pursuant to notice, at the time and place
9	indicated; that the statements of said parties was
10	correctly recorded in machine shorthand by me and
1.1	thereafter transcribed under my supervision with
12	computer-aided transcription; that the Postal Regulatory
13	Commission Field Hearing is a true record of the
14	statements given by the parties; and that I am neither of
15	counsel nor kin to any party in said action, nor
16	interested in the outcome thereof.
17	WITNESS my hand and official seal this
18	16th day of July A.D. 2007.
19	
20	
21	GLORIA M. D'AMORE
	REGISTERED PROFESSIONAL REPORTER
22	CERTIFICATION NO. 119-PS
23	
24	